Charitable Giving

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Lifetime Outright Gifts

- Cash
- Appreciated Property
  - Stock
  - Land
  - Jewelry

Tax Savings of Outright Gifts

- Must be to a qualified organization. See IRS Publication 78.
- Must be able to substantiate gift with copy of check or receipt from charity
- Deductible on individual income tax return if taxpayer itemizes deductions
- Some income limitations may apply

Example of Tax Savings

	w/o Charitable Donation	w/Charitable Donation
Income	100	100
Charitable Donation	0	(100)
	--------	--------
Taxable Income	100	0
Tax Rate	25%	25%
	--------	--------
Tax	25	0
Cash to Charity	0	100
Cash to Taxpayer	75	0

Allows you to make a $100 donation with an actual cost of only $75. As your tax rate increases, the actual cost of a donation decreases even more.

Tax Savings on Appreciated Property

- Deduction for:
  - "ordinary income" property – basis
  - "capital gain" property – fair market value
- If you gift property that you have owned for more than a year and it has increased in value since you acquired it, then you avoid paying capital gains tax on the increase in value.

Example of Gift of Appreciated Stock

Proceeds	10,000
Basis	(1,000)

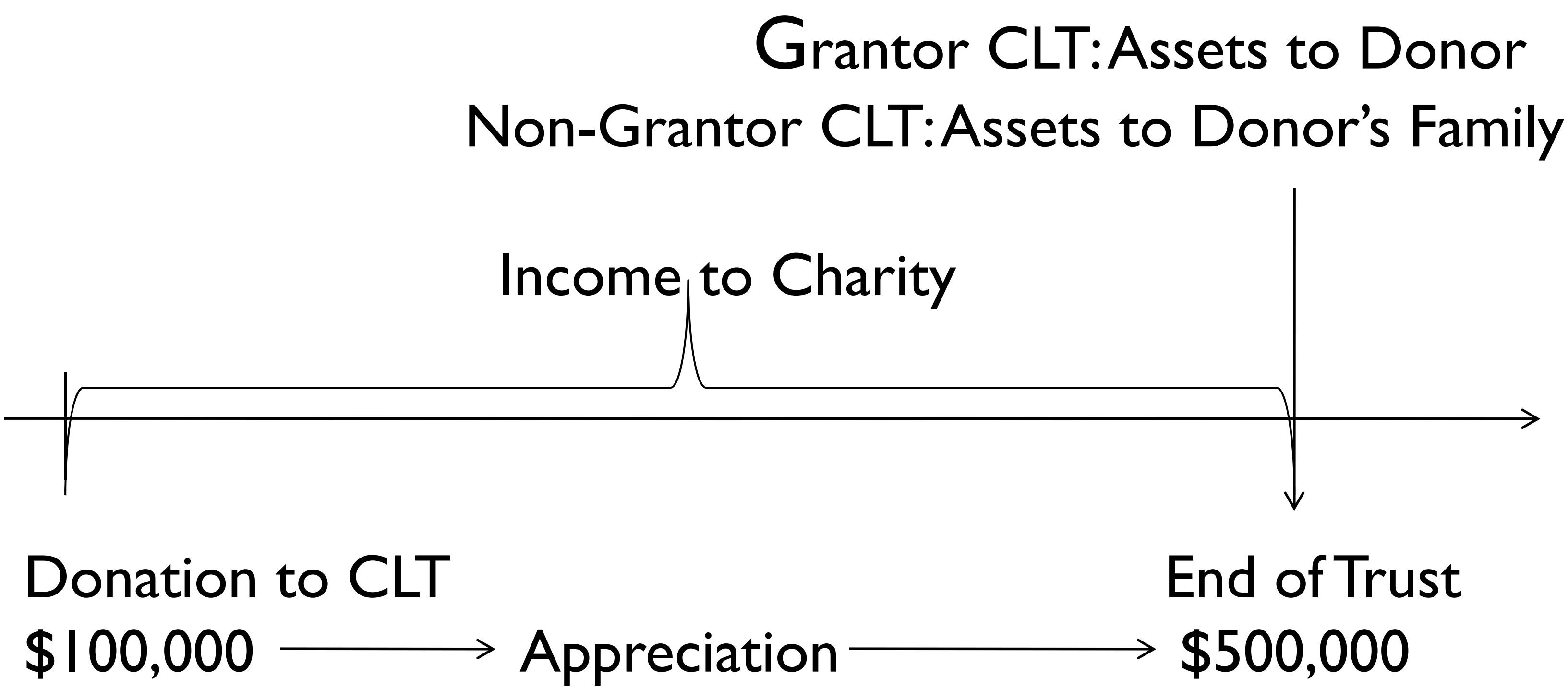
Gain	9,000
Tax Rate	15%

Tax	1,350

Example of Gift of Appreciated Stock

	Sell Stock & Donate Cash	Donate Stock	
Proceeds from Stock	10,000		
Less: Cap Gain Tax	(1,350)		
Value Transferred To Charity	8,650 Cash	10,000 Stock	1,350
Tax on Cap Gain	(1,350)	0	
Saving from Donation	(8,650 x 25%) 2,163	(10,000 x 25%) 2,500	
Net Tax Benefit	813	2,500	
Change in Donor Wealth	(9,187)	(7,500)	1,687

Charitable Lead Trust



Income generated by the assets goes to charity while the remaining assets go back to the donor or to the donor's family when the trust ends

Charitable Lead Trust

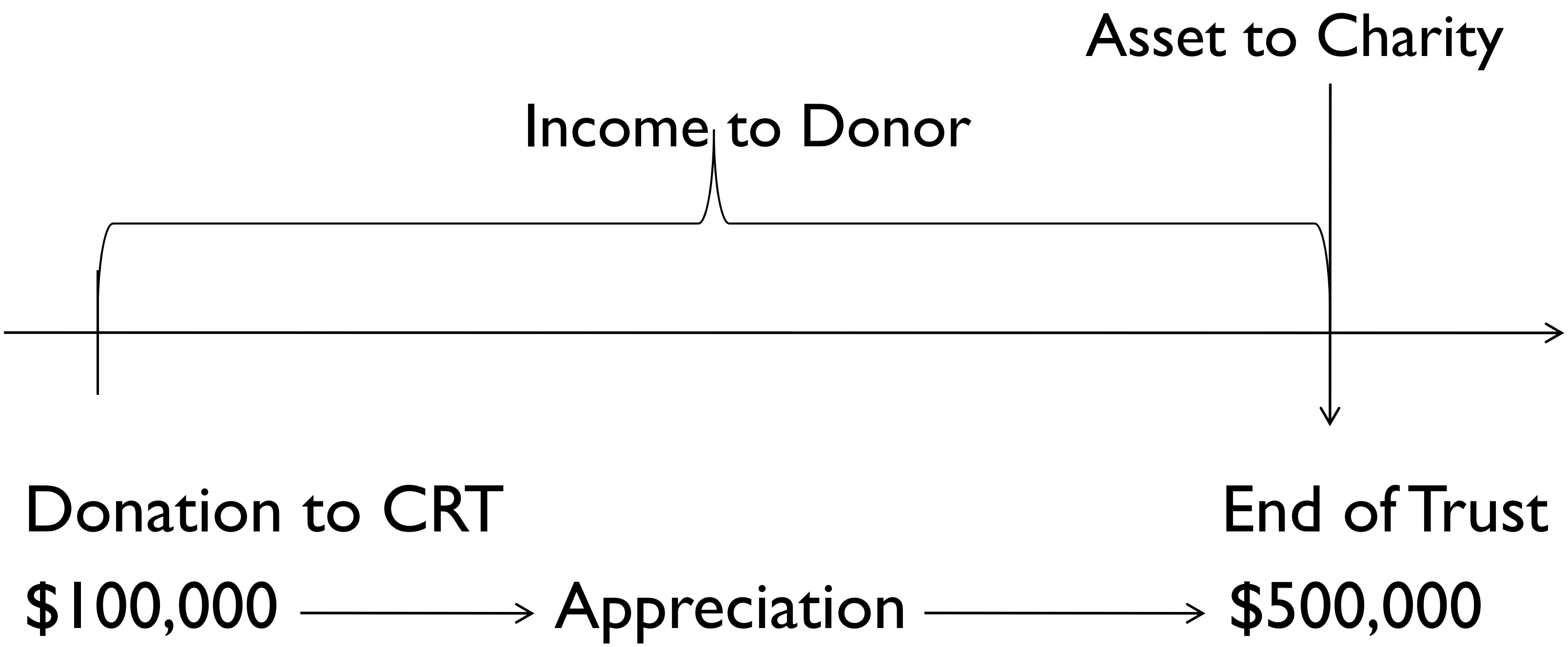
Characteristics:

- Good for people who do not need the assets to pay for their living expenses
- Allows the assets to be left to heirs at the end of the trust or the assets can go back to the donor depending on the type of trust
- Bottom line is this type of trust allows a charity to use your assets and the income produced from the assets for a period of time.

Tax Savings from Charitable Lead Trust

- Non-grantor Lead Trust – Assets to Family
  - Freezes value of assets left to heirs and reduces potential estate and gift taxes.
  - All appreciation of assets while in trust passes estate tax-free to heirs.
  - No income tax deduction for individual. Income and deduction are reported annually on trust tax return.
- Grantor Lead Trust – Assets to Donor
  - Allows an income tax deduction in year of gift but income from trust is reported on grantor's individual income tax return

Charitable Remainder Trust



Allows donor to give up ownership of assets but continue to live off the income generated by the assets

Charitable Remainder Trust

<u>Characteristics:</u>

- Good for people who need the asset to cover living expenses
- Allows the donor to make a charitable gift but still have cash flow from the assets
- Bottom line is this type of trust allows the donor to receive income from the asset, but the charity keeps the asset at the end of the trust.

Tax Savings from Charitable Remainder Trust

- Trust does not pay capital gains on sale of appreciated assets.
- Assets in trust are not included in your estate at your death.
- Current deduction on individual income tax return for present value of remainder interest going to charity.
- Some income paid by trust to donor may be taxable.

Gifts at Death

- Will
- Beneficiary
  - Life Insurance
  - Retirement Plans

Beneficiary of Life Insurance

- Allows donor to give a larger gift than they can currently afford
- Amount received by charity is not reduced by estate or income taxes
- Charity receives amount quickly
- Not likely other heirs will contest the charity's right to the payment

Beneficiary of Retirement Plan

- Check with the plan administrator to determine if there are any restrictions on designating charities as beneficiary
- May need to obtain spousal consent on beneficiary form

Tax Savings on Gifts at Death

- Charitable gifts made through a will or by designating a charity as beneficiary of life insurance or a retirement plan will reduce the amount of estate taxes, if any, owed at death.
- Designating a charity as beneficiary of a retirement plan will also save income tax on any income that has been deferred through contributions to the plan

Example of Retirement Plan Gifting

Assume John has been making pre-tax contributions to his 401(k). At his death his 401(k) is worth $100,000. Because none of the money John has contributed was ever taxed, all $100,000 is now subject to tax. If John designates his children as beneficiary and assuming the children are in the 25% tax bracket, $25,000 of taxes will be owed by the children. If John designates a charity as beneficiary, then no income tax is due on the $100,000 balance. Tax savings equal $25,000.

Example of Retirement Plan Gifting

Continuing with the previous example, assume John's estate is subject to estate tax. The $100,000 in his 401(k) is also subject to estate tax. Assuming the tax rate is 45%, John's estate owes $45,000 in estate tax. If the 401(k) is left to a charity then the estate receives a deduction of $100,000, and no estate tax is owed. Therefore, considering income and estate tax, John's estate can save $70,000 of tax by designating a charity as beneficiary and leaving his children other assets.

Example of Retirement Plan Gifting

	w/o Charitable Gift	w/Charitable Gift
To Charity	0	100,000
To Government	70,000	0
To Family	30,000	0
	100,000	100,000

Allows you to make a $100,000 gift with only a $30,000 effect on your family.

Conclusion

- The gifting strategies mentioned in this presentation are only a few of the numerous methods of transferring assets to charities while receiving a tax benefit.
- As with all tax planning, this information is very broad and exceptions may apply. Please consult with your attorney or CPA before taking any action.

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